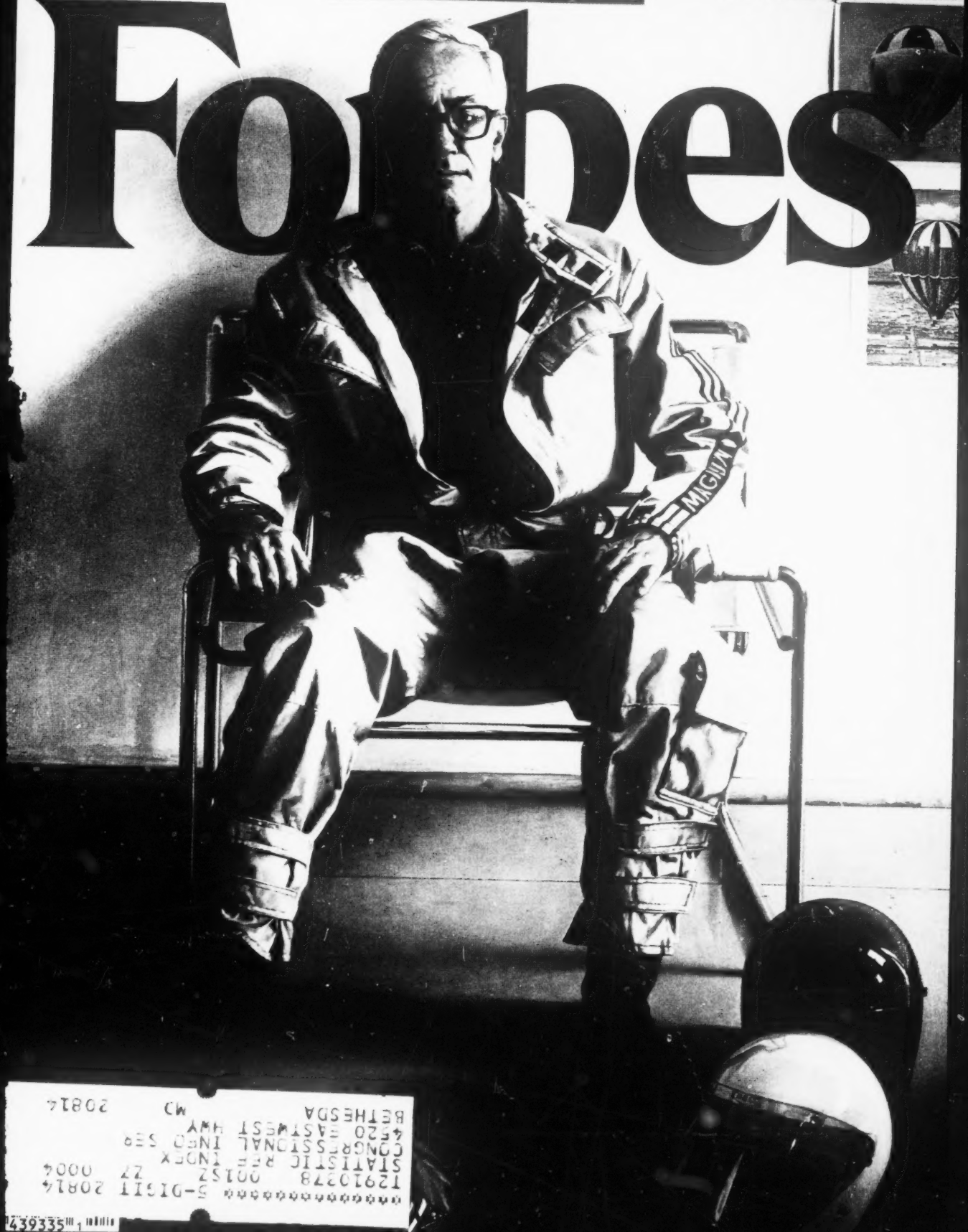
ARCH 19, 1990

1919-1990
WHILE ALIVE, HE LIVED

THREE DOLLARS SEVENTY-FIVE CENTS

Forbes



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Cover painting by Claudio Bravo; photo by Christopher Makos

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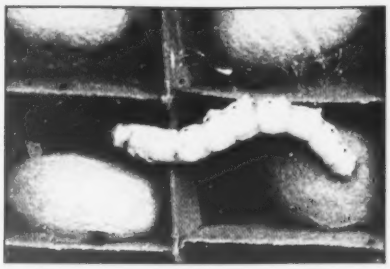

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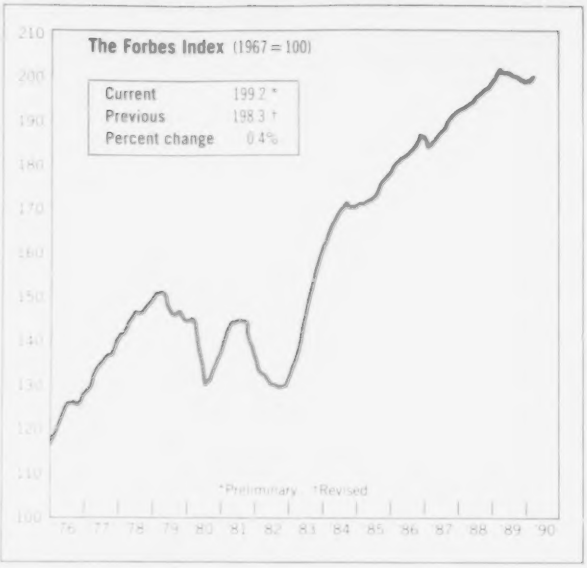
The Forbes Index



New housing starts (not seasonally adjusted) jumped 39% in January. That's the sharpest rise in almost a year. But favorable weather may have been more responsible for the improvement in this somewhat erratic indicator than any fundamental change in the home-building market. The Consumer Price Index jumped 1.1% in January, but nobody is taking it seriously. The sharp rise in food and energy prices accounted for about half of this increase. January industrial production declined 1.1% and now stands about where it did a year ago.

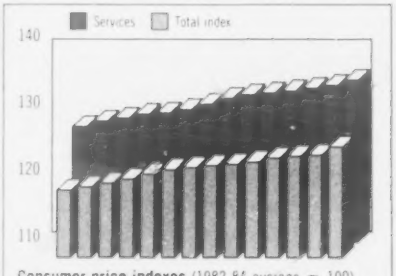
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	10.0%
Auto sales[1] year to date vs. 1989	Ward's Automotive	3.2%
Index of leading indicators December vs. November	Dept. of Commerce	0.8%
Trade balance last 12 months	Dept. of Commerce	-$108 bil
Producer price index[2] January vs. 1989	Dept. of Labor	5.8%
GNP 4th quarter vs. 3rd—annualized growth	Dept. of Commerce	0.5%
NBER Experimental Recession Index[3]	Natl Bureau of Economic Research	6.0%

[1]U.S. based manufacturers only as of 2/20/90. [2]Finished goods. [3]December 1989.

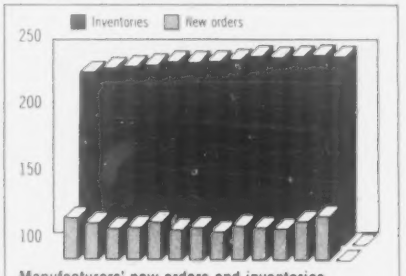
Index Components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

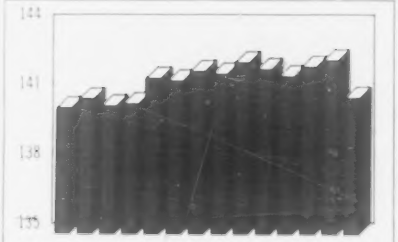
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



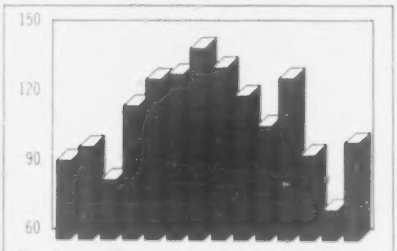
Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)



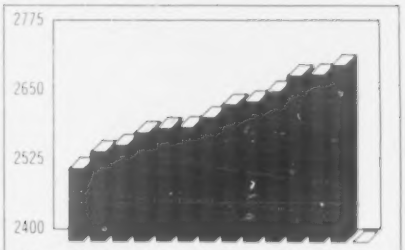
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



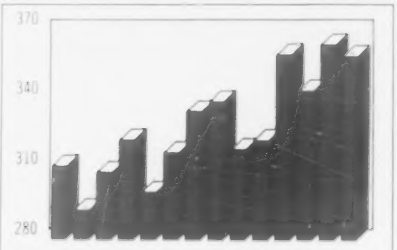
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)



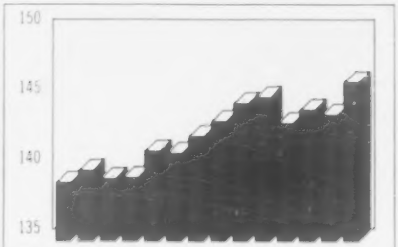
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



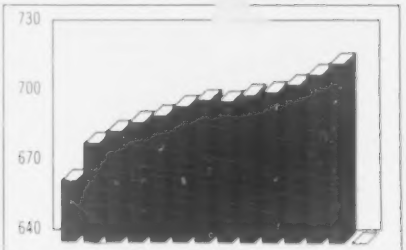
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



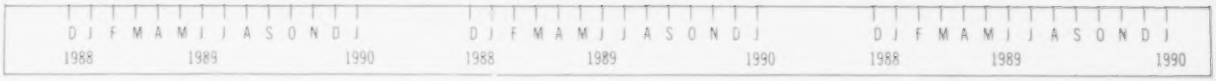
New unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)



The Forbes Wall Street Review

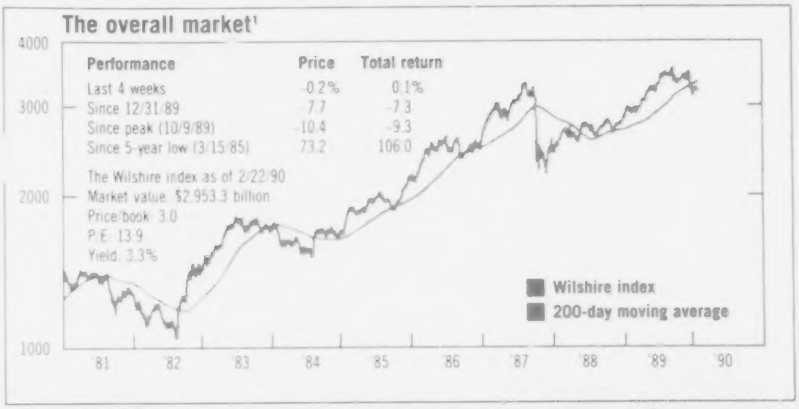
Edited by Eric S. Hardy

The capitalization-weighted Wilshire index is down about 10% from its October 1989 high, while its market value is once again under $3 trillion. Gail M. Dudack, a market analyst with S.G. Warburg Securities, observes that during the past few weeks a good trading session for the Dow didn't necessarily translate into a gain for the overall market. "Even when the Dow was up, the advance/decline ratio was weak and volume was lackluster," she says.

Dudack, who has been bearish since last September, believes the correction is only about half over, and expects the Dow to lose another 200 points or so before resuming its upward trek. Currently she is recommending only some high-yielding electric utilities and stocks in industries that have demonstrated above-average relative performance. These include the energy and gold sectors.

Investors in the old Holiday Corp. have been well rewarded. The company paid out a special $65 dividend in 1987. The "stub" stock (since renamed Promus) has performed well up to this point, despite falling 15% in the last two weeks. In February stockholders received shares in a British company, Bass Plc., in exchange for their equity in the firm's domestic motel operations, while another special cash dividend ($30) was paid out. A $1,000 investment in Holiday Corp. in January 1987 is now worth $1,750.

The overall market[1]



The Best Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
McCormick	21¼	16%	18	1,444	0.6
West Point Pepperell	36½	16	30	99	1.8
Tyson Foods	26⅛	15	17	2,526	1.7
Freeport McMoRan Gold	16⅜	15	54	1,930	4.0
Castle & Cooke	34¼	15	23	1,775	1.5

The Worst Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Century Communications	8½	-19%	NA	273	1.3
Crawford	25½	-16	16	70	0.6
Echo Bay Mines	16⅛	-16	38	5,528	1.1
Nordstrom	29¼	-16	18	9,915	3.8
Promus	25⅛	-16	NA	2,688	1.0

Closeup on the Market

Index or investment	Price	2-week change
Wilshire index 6,000 stocks, capitalization weighted	3,156.66	-1.9%
Wilshire index 6,000 stocks, equal weighted	21.06	0.5
Dow Jones industrials 30 stocks, divisor-adjusted price average	2,574.77	-2.6
S&P 500 Capitalization weighted cross section, major stocks	325.70	-2.2
NYSE Capitalization weighted, all listed common stocks	180.28	-2.1
Amex Capitalization weighted total return: stocks, warrants	353.35	-1.2
Nasdaq Capitalization weighted, all issues except warrants	422.76	-1.1
Amex international market index Capitalization weighted, 50 largest ADRs	316.28	-2.9

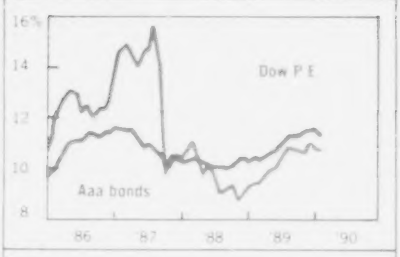
Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	966.50	-4.5%
Institutional[5] Approximately 200 stocks with high institutional ownership	107.69	-1.9
Individual[5] Approximately 200 stocks with low institutional ownership	103.31	-1.1
Russell 2000 index 2000 stocks with small market values, capitalization weighted	157.80	-0.5
Gold[6] (Composite quote of 6 major dealers)	$418.00	-0.2
Yen[6] (per $U.S.)	146.40	0.8
Commodity index[6] (CRB futures index, 1967 = 100)	236.25	2.4
Oil[6] (W Texas Intermediate)	$21.75	-1.5
T Bills[6] (90 days)	7.73%	-5 basis points[7]
Broker loan rate[6]	9.25%	unchanged

Note: All data for periods ending 2/22/90. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $500 million or more. [1]Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Average daily volume over a 2-week period. [3]Average daily volume over the last 2 weeks, divided by the average daily volume over the preceding 3 months. [4]Morgan Stanley Capital International Perspective. [5]For period ending 2/23/90. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6]Knight-Ridder Financial Information. [7]A basis point is equal to one-hundredth of a percentage point. NA: Not applicable.

What the Analysts Think

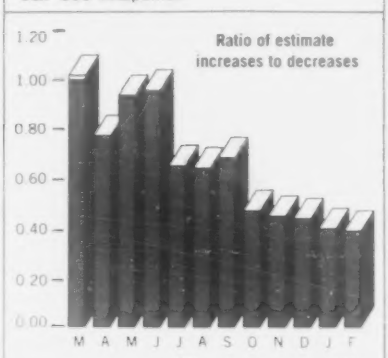
Edited by Steven Ramos

Dow P/E * vs. Aaa bonds †



*Dow P/E is the recent price of the Dow divided by estimated earnings over the next 12 months. †Projected price-to-coupon ratio for Moody's Aaa corporate bond index.

S&P 500 companies



Forecasting the S&P 500

Year	Estimated P/E	% change current estimate vs. 3 months ago	Expected year-to-year EPS growth
1989[1]	13.5	NA	–3%
1990	11.6	–5%	16
1991	10.3	–4	13

1990 estimates for major industry groups

Rising estimates	Falling estimates
oil & gas drilling	publishing
gold	airlines
household products	steel
insurance brokers	machine tools
prop/cas insurance	leisure time

Many investors seem to be preoccupied with the possibility of a jump in inflation, but Richard Pucci blames disinflation for the disappointing corporate profits in the second half of last year. Pucci, director of IBES at the New York City-based brokerage firm Lynch, Jones & Ryan, says excess capacity and slower economic growth left corporations with limited pricing flexibility in the last two quarters. (Most visible case in point: automobile rebates.) Prices failed to keep pace with costs, and profit margins suffered. The extent of the earnings slide fooled a lot of security analysts—hence the large number of negative earnings surprises in the last six months of 1989. According to Pucci, 1989 earnings for the Standard & Poor's 500 will be off about 3% from 1988.

What about 1990? After a slow first half, analysts expect the economy to improve in the last six months. The current outlook calls for Standard & Poor's 500 earnings to be up 16% from 1989. But this forecast should be watched carefully. Analysts have been feverishly lowering their estimates. Right now, for every 10 S&P 500 estimates that they raise, they are lowering 26 estimates *(see center box above)*.

Who's Hot

These companies show the greatest increases in estimates over the past three months.[2]

Company/industry	1989 EPS	1990 estimate: recent	1990 estimate: 3-mo chg	P/E	3-mo price chg	Reason
AST Research/computers	$0.64	$1.51	54%	10	49%	Demand for its Intel 80386-based PCs
Western Digital/computer peripherals	1.18	0.66	26	14	35	Order bookings are at record levels
Thermo Process Sys/industrial machinery	0.16[3]	0.67[4]	24	22	14	Several new contracts from defense companies
Oceaneering Intl/offshore drilling	0.44[3]	0.71[4]	24	17	28	Sonsub acquisition will increase market share
Mylan Labs/generic drugs	0.65[3]	1.18[4]	23	19	10	FDA testing scandal hurts competitors

Who's Not

These companies show the greatest decreases in estimates over the past three months.[2]

Company/industry	1989 EPS	1990 estimate: recent	1990 estimate: 3-mo chg	P/E	3-mo price chg	Reason
Micron Technology/semiconductors	$2.41	$0.31	–82%	29	–20%	Falling prices for DRAM chips
National Education/communications	0.29[3]	0.24	–69	21	–37	Continued losses at Applied Learning subsidiary
SCI Systems/computer peripherals	1.00	0.32	–64	31	6	Major customer files Chapter 11
USAir Group/airline	1.71	1.19	–62	21	–29	Rising fuel costs and lower air fares
Commodore Intl/microcomputers	1.60	0.70	–58	11	12	Higher operating expenses; lower demand for its PCs

[1]Actual. [2]Companies with market capitalization of $100 million or more. [3]1990 estimate. [4]1991 estimate. Earnings projections are Wall Street consensus estimates. Data from over 3,000 security analysts are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan Investment Services, New York. Aaa bond yield forecasts supplied by Blue Chip Economic Advisors. NA: Not available.

For investors who would rather pick their own European stocks than buy an overpriced country fund, here is a starting list.

Euro-shopping

By Charles M. Bartlett Jr. and Warren Midgett

So HOT is the action in one-country closed-end funds that several European funds have climbed to ridiculous premiums over their underlying asset value. At least nine closed-ends specializing in European stocks have come out in the past 12 months or are in the works now.

Many smart investors who like foreign stocks, however, don't buy closed-ends trading in the aftermarket at a premium. Why pay $1.50 for a dollar bill? Nor do they buy closed-ends when they first come out (a sales load is built into the price).

What do they do? For investors desirous of participating in the European investment scene, several options remain. One is to retreat to the comparative safety of foreign bonds, as Ben Weberman recommends in his column on page 199. Another is to buy an open-end foreign fund, preferably one with no sales load. The third, for those with the patience and the capital, is to create a diversified European portfolio one stock at a time. The foreign-stock sampling on these pages is a starting point.

If your taste runs to blue chips with long holding periods, a do-it-yourself European portfolio is quite plausible. We looked at the Germany Fund's last annual report. Of the $158 million in its portfolio, $32 million was invested in stocks such as BASF, Daimler-Benz and Dresdner Bank, all issues that are well known and easily obtainable through a good U.S. broker. On the other hand, the Germany Fund's holdings also include stocks such as Aachener & Münchener Beteiligungs, Gerresheimer Glas and Altana. U.S. investors will not find it easy obtaining financial information on these smaller stocks.

Many of the biggest foreign issues are available in the form of American Depositary Receipts, or ADRs. Sponsored ADRs have a bank, such as Morgan Guaranty or Citicorp, that takes care of all the paperwork and complications involved in foreign investing. ADRs, each of them a package of a certain number of foreign shares, are traded on a U.S. exchange and are quoted in dollars. Donna Pulini, vice president of the ADR department at Citibank, estimates that there are now over 800 ADRs available, up a third from 1985.

If you can t find an ADR for the company you want to buy, plan on spending a few extra basis points on currency conversion and a little extra time getting your broker to take a purchase order. And, even for the big companies, resign yourself to getting less frequent and less complete financial reports.

Our earnings forecasts come from the Institutional Brokers Estimate System, with other data provided by Morgan Stanley, Randall-Helms and Wilshire Associates. ■

How the markets compare

This Jan. 31, 1990 snapshot shows relative valuations of 11 European markets and U.S. stocks.

Country	P/E	Yield	Market value (bil)	Year-to-date price change
Denmark	14.7	1.5%	$23.1	3.3%
Finland	10.6	2.7	12.2	5.8
France	11.7	2.9	178.9	–7.9
Germany	18.4	2.9	231.2	3.4
Italy	13.8	2.6	94.1	–2.7
Netherlands	9.3	4.5	88.2	–5.3
Norway	13.4	1.4	15.8	19.5
Spain	12.9	4.4	59.0	–6.1
Sweden	15.1	1.9	63.0	–8.4
Switzerland	16.3	2.1	102.5	2.4
U.K.	11.2	4.7	501.1	–0.7
U.S.	14.1	3.6	1,721.8	–6.8

Source: Morgan Stanley Capital International Perspective.

Do-it-yourself foreign fund

One alternative to paying a premium for a foreign closed-end stock fund is to invest in individual stocks. The table lists some of the better-known European ones, along with 1990 earnings forecasts from the Institutional Brokers Estimate System. Stocks available as American Depositary Receipts are marked with a ● .

Company/business	Stock price recent	Stock price —1989— high	Stock price —1989— low	Latest 12-mo P/E	Earnings per share 1989	Earnings per share 1990E	Dividend	Yield	Market value* (mil)
France									
CIE Financière de Paribas/banking	$112.69	$127.68	$79.49	11.8	$9.93	$11.04	$2.65	2.3%	$7,998
Crédit Lyonnais/banking	123.62	125.48	84.81	8.2	17.34	19.65	5.03	4.1	3,078
Générale des Eaux/business & public svcs	356.93	411.78	275.00	22.5	18.13	20.97	7.94	2.2	6,537
Générale d'Electricité/elec & electron	94.88	94.88	66.31	10.3	6.54	7.39	2.38	2.5	9,546
●**LVMH**/beverages & tobacco, luxury goods	164.00	192.50	117.00	NA	7.21	9.32	1.09	0.7	10,097
Michelin/tire & rubber	23.10	33.89	26.82	4.3	4.50	4.69	0.60	2.6	2,470
Peugeot/automobiles	123.97	164.01	130.24	3.8	36.01	40.79	3.70	3.0	6,455
Saint-Gobain/misc materials & commod	93.47	122.35	98.40	7.1	12.31	13.56	3.44	3.7	6,237
Société Générale/banking	96.64	93.47	82.36	9.7	10.23	11.48	3.44	3.6	5,658
Société Nationale Elf Aquitaine/energy	102.81	95.58	73.33	7.4	13.70	14.57	5.29	5.1	10,640
Total-CIE Française Pétroles/energy	95.41	101.40	70.09	6.2	8.73	10.18	5.29	5.5	3,429
Germany									
BASF/chemicals	179.79	187.88	160.61	8.6	23.97	24.27	11.24	6.3	10,534
Bayer/chemicals	186.50	187.40	169.78	9.2	22.59	23.25	11.24	6.0	12,045
BMW/automobiles	378.16	365.87	291.94	15.9	32.36	34.58	11.70	3.1	4,970
Daimler-Benz/automobiles	530.38	484.23	379.49	15.1	32.24	32.66	11.24	2.1	23,015
Deutsche Bank/banking	470.45	472.61	287.25	NA	28.11	32.24	13.11	2.8	18,856
Dresdner Bank/banking	243.02	258.90	182.62	NA	16.72	17.92	9.37	3.9	8,220
Hoechst/chemicals	183.99	189.68	154.92	8.1	23.97	23.97	11.24	6.1	10,324
Mannesmann/machinery & engineering	209.76	222.94	121.14	20.0	13.96	15.22	6.09	2.9	6,259
Metallgesellschaft/multicompany	389.55	360.18	213.05	31.0	15.28	16.12	7.49	1.9	2,880
Siemens/electrical equip, electronics	447.98	431.50	304.44	18.8	27.09	29.49	11.70	2.6	21,493
Thyssen/steel	175.71	163.61	125.32	11.3	21.16	21.99	9.37	5.3	5,110
Volkswagen/automobiles	331.41	324.22	187.58	12.0	37.40	42.37	9.37	2.8	9,481
Italy									
●**Fiat**/automobiles	41.00	45.25	31.00	8.3	5.91	6.61	0.78	1.9	17,125
●**Montedison**/chemicals	15.25	18.50	13.62	8.6	1.68	1.49	0.24	1.6	3,922
Olivetti Group/data processing	5.35	7.67	5.98	10.3	0.48	0.54	0.27	5.1	3,277
Pirelli/automobiles	2.14	3.28	2.36	8.0	0.24	0.26	8.99	4.2	2,260
STET/telecomm	4.00	4.08	2.64	10.1	0.44	0.49	0.16	4.0	6,849
Netherlands									
●**Aegon**/insurance	56.50	61.12	42.25	NA	6.30	6.82	2.37	4.2	2,362
●**Akzo**/chemicals	31.63	36.87	30.00	6.2	5.50	5.96	1.46	4.6	2,891
●**KLM Royal Dutch Airline**/airline	17.75	26.50	19.88	5.6	4.55	4.17	0.69	3.9	1,191
●**Oce-Van Der Grinten**/computer equip	29.25	31.00	26.25	10.6	3.02	3.31	0.80	2.7	430
●**Philips NV**/electrical equip, electronics	21.88	25.12	16.37	10.2	2.38	2.55	0.81	3.7	6,120
●**Royal Dutch Petroleum**/integrated oil	76.38	77.87	58.12	10.2	7.63	7.84	3.36	4.4	40,499
●**Unilever NV**/multicompany	75.88	85.75	60.50	13.7	6.35	7.07	1.78	2.3	12,706

*Market value of foreign shares reflects aggregate value of all classes of common stock. Market value of ADRs measures only the class of foreign stock represented by the ADR. E: Estimate. NA: Not available.

Sources: Institutional Brokers Estimate System; Morgan Stanley Capital International Perspective; Wilshire Associates; Forbes.

Do-it-yourself foreign fund

Company/business	Stock price recent	Stock price 1989 high	Stock price 1989 low	Latest 12-mo P/E	Earnings per share 1989	Earnings per share 1990E	Dividend	Yield	Market value* (mil)
Scandinavia									
•**ASEA Brown Boveri**/electronics	$122.50	$57.25	$44.50	29.1	$6.02	$7.81	$1.13	0.9%	$7,303
•**Electrolux**/household appliances	41.38	58.75	37.75	7.0	5.91	6.00	1.47	3.6	3,333
•**LM Ericsson**/telecommunications	136.75	160.12	62.00	30.9	8.38	10.23	1.33	1.0	6,240
•**Gambro**/health & personal care prods	21.63	22.62	17.37	21.6	1.33	1.56	0.23	1.1	492
•**Instrumentarium**/health care equip	14.00	15.62	11.00	6.5	1.69	1.66	0.20	1.4	626
•**Norsk Hydro**/fertilizers, oil, gas, metals	30.13	30.87	20.37	11.6	2.55	2.81	0.44	1.5	5,627
•**Novo-Nordisk**/chemicals	49.25	52.62	40.75	13.6	3.69	4.10	0.46	0.9	1,555
•**Pharmacia**/chemicals	22.25	24.75	16.25	19.5	1.21	1.44	0.20	0.9	2,085
•**SCA Svenska Cellulosa**/forest products	16.75	23.75	15.37	4.5	1.88	1.87	0.45	2.7	3,097
•**SKF Group**/bearings & steel prods	22.75	28.62	17.42	12.8	2.35	2.66	0.46	2.0	2,705
•**Volvo**/automobiles	59.88	81.00	59.87	6.5	11.41	11.33	1.84	3.1	5,191
Spain									
•**Banco Bilboa-Vizcaya**/banking	31.88	35.75	29.62	10.5	3.70	4.30	1.15	3.6	7,905
•**Banco Central**/banking	20.75	22.50	17.87	16.0	1.95	NA	0.60	2.9	4,151
•**Banco Santander**/banking	45.00	59.50	45.00	11.0	0.59	0.68	1.18	2.64	5,107
Iberduero/electric & gas	5.96	6.51	5.12	8.9	0.10	0.12	0.52	8.7	2,755
•**Repsol**/energy	23.25	24.75	16.37	14.1	0.44	0.53	0.27	1.2	6,754
Tabacalera/beverages & tobacco	6.15	8.90	7.04	12.5	0.62	0.73	0.19	3.1	1,210
•**Telefónica**/telecommunications	23.38	27.62	22.75	12.5	2.00	2.30	1.08	4.6	7,268
United Kingdom									
•**ADT Ltd**/security svcs, bldg mgmt	32.00	34.37	29.12	14.5	2.95	3.36	1.60	5.0	1,918
•**Barclays**/banking	38.00	39.50	27.37	6.9	4.36	6.30	1.80	4.7	10,882
•**BAT Industries**/tobacco, food & paper	13.63	14.75	8.75	11.8	1.26	1.38	0.32	2.3	20,524
•**BET Public**/multicompany	16.50	20.37	16.12	9.3	1.87	2.06	0.90	5.5	3,277
•**British Airways**/airline	33.75	38.37	29.62	7.5	4.66	5.03	1.63	4.8	2,458
•**British Gas**/gas	37.75	39.75	27.63	11.3	4.05	4.72	1.84	4.9	16,039
•**British Petroleum**/integrated oil	70.00	70.75	54.25	11.7	5.92	5.86	4.24	6.1	30,551
•**British Steel**/steel	22.88	24.37	19.62	4.3	4.72	3.65	1.38	6.0	4,439
•**British Telecom**/telecommunications	50.88	52.12	39.62	12.1	4.22	5.33	1.90	3.7	30,595
•**Cadbury Schweppes**/food processing	56.38	75.12	52.75	13.3	4.06	4.52	1.70	3.0	4,374
•**Courtaulds**/textiles	6.38	6.87	4.87	10.5	0.64	0.72	0.23	3.6	2,548
•**Fisons**/drugs	22.25	23.37	17.62	15.8	1.48	1.72	0.39	1.8	3,804
•**Glaxo Holdings**/food, drugs, medical equip	24.88	27.37	20.75	17.4	1.50A	1.75	1.01	4.1	17,876
•**Hanson**/multicompany	19.25	19.87	15.00	11.6	1.50A	1.76	0.80	4.2	14,818
•**Imperial Chemical Inds**/chemicals	70.50	87.25	68.50	8.0	8.93	8.60	3.98	5.6	12,479
•**National Westminster Bank**/banking	34.50	36.00	27.25	5.2	1.89	6.08	1.66	4.8	9,242
•**Racal Telecomm**/mobile telecomm	65.63	82.37	48.25	43.5	1.84	2.89	0.26	0.4	5,967
•**Rank Organisation**/leisure services, mfg	13.25	17.25	12.50	10.5	1.31	1.48	0.52	3.9	3,685
•**Reuters Holdings**/intl news service	52.50	54.00	33.50	27.2	2.05	2.58	0.55	1.0	7,293
•**Shell Transport & Trading**/integrated oil	48.63	49.62	37.87	11.9	4.12	4.27	1.93	4.0	26,962
•**Unilever Plc**/food & household prods	43.50	48.25	34.37	13.1	3.54	3.94	1.03	2.4	8,905

*Market value of foreign shares reflects aggregate value of all classes of common stock. Market value of ADRs measures only the class of foreign stock represented by the ADR. A: Actual earnings. E: Estimate. NA: Not available.

Sources: Institutional Brokers Estimate System; Morgan Stanley Capital International Perspective; Wilshire Associates; Forbes.